

NEWS RELEASE



***OFFICE OF THE UNITED STATES ATTORNEY
SOUTHERN DISTRICT OF CALIFORNIA
San Diego, California***

***United States Attorney
Karen P. Hewitt***

For Further Information, Contact:

Debra Hartman (619) 557-5275

For Immediate Release

NEWS RELEASE SUMMARY - March 13, 2007

United States Attorney Karen P. Hewitt announced that Stephen Parker Gardner, Peregrine Systems, Inc.'s ("Peregrine") former Chief Executive Officer, pleaded guilty today in federal court in San Diego to one count of conspiracy, one count of securities fraud, and one count of obstruction of justice, Counts One, Two, and Forty-Six of the Second Superseding Indictment pending before United States District Court Judge Thomas J. Whelan. United States Attorney Hewitt also announced that on February 27, 2007, Andrew Vincent Cahill, Jr., Peregrine's former Executive Vice President of Worldwide Sales, and Berdj Joseph Rassam, Peregrine's former Controller, entered guilty pleas in federal court in San Diego before Judge Whelan to one count of securities fraud, charged in Count Two of the Second Superseding Indictment. Together these events mark the entry of the eighth, ninth, and tenth felony guilty pleas resulting from the government's investigation and prosecution of securities fraud at Peregrine, a business software company formerly headquartered in San Diego, California, and now a division of Hewlett-Packard Company.

Defendants Cahill and Rassam face a maximum custodial sentence of 10 years. Defendant Gardner faces a maximum custodial sentence of 20 years.

According to Assistant U.S. Attorneys Eric J. Beste, Sanjay Bhandari, and William M. Narus, who are prosecuting the case, Gardner, Cahill, and Rassam, together with others charged in the case, participated in a scheme to fraudulently manipulate Peregrine's publicly-filed financial reports in order to inflate and sustain the price of Peregrine's stock. As alleged in the indictment, the scheme employed a number of fraudulent and deceptive practices designed to manipulate Peregrine's revenue and income figures, including (1) improperly keeping Peregrine's books "open" past the end of the fiscal quarter; (2) improperly recording revenue on contracts that were subject to oral and written side agreements and promises, or that were procured by Peregrine paying "kickbacks" to deal partners; (3) improperly recording revenue for purported sales that were actually dependent on Peregrine providing the purchaser with cash, equity, or orders for products or services; and (4) improperly releasing Peregrine's reserves to manipulate the company's reported earnings per share. In addition, in an effort to conceal the fact that Peregrine was not collecting on accounts receivable, the co-schemers engaged in several fraudulent practices, including (1) fraudulently selling impaired accounts receivables to financial institutions; (2) "burning" these receivables with later unrelated deals closed by Peregrine; and (3) falsely characterizing uncollectible accounts receivables as related to recent acquisitions, and deceptively writing them off as one-time, non-recurring charges.

In connection with their guilty pleas, defendants Cahill and Gardner admitted that they participated in the scheme by, among other things, causing Peregrine to improperly book revenue on software license contracts that were not executed within the appropriate fiscal period, or that contained side-deals limiting the customers' obligation to pay Peregrine. Cahill and Gardner further admitted that they engaged in these deceptive practices in order to fraudulently inflate and sustain the price of Peregrine stock.

Defendant Rassam admitted, in connection with his guilty plea, that he participated in the scheme by, among other things, falsely characterizing a write-off of Peregrine's uncollectible accounts receivable as related to Peregrine's previous acquisitions. Rassam admitted that he did this in order to conceal the amount and extent of Peregrine's uncollectible receivables, and to mislead securities analysts and the investing public

as to Peregrine's true financial condition. Defendant Gardner also admitted being aware of the writing off of impaired receivables through the "acquisition and other" line item rather than as a bad debt expense, and that this was a deceptive practice that misled the public regarding the true business reason for the write-offs.

Cahill was named Peregrine's Vice President for Worldwide Sales in approximately May 2000, and was promoted in approximately October 2001 to Executive Vice President for Worldwide Sales. Gardner was hired by Peregrine in 1997 as Vice President of Strategic Acquisitions, was promoted to President and Chief Executive Officer in April 1998, and promoted to Chairman of the Board of Directors in July 2000. Rassam was hired by Peregrine as its Controller in approximately November 2000.

As part of his plea agreement, defendant Gardner agreed to forfeit approximately \$384,652.44 in United States currency which had been seized from his brokerage accounts, as well as four parcels of land against which the government had filed notices of *lis pendens*.

Defendants Cahill, Gardner, and Rassam had been scheduled for trial in April 2007. No sentencing dates have been set for Cahill, Gardner or Rassam.

Four other defendants are still scheduled to go to trial in April 2007, and two other defendants are awaiting a trial date.

United States Attorney Karen P. Hewitt stated, "The government can and will successfully pursue justice for victims of white-collar fraud, no matter how complex the case, no matter how highly placed the defendant, no matter how hard they fight, and no matter what the cost."

Special Agent in Charge Daniel R. Dzwilewski commented, "The FBI continues to pursue those who intentionally defraud the investing public for personal gain. A scheme such as this one impairs an investor's ability to make educated decisions and undermines the practices of a capitalistic society."

These prosecutions are the result of an investigation by the Federal Bureau of Investigation, San Diego Division, working cooperatively with a parallel civil investigation conducted by the U.S. Securities and Exchange Commission.

DEFENDANTS**Case Number: 04cr2605-W**

Andrew Vincent Cahill, Jr.
Massachusetts

Stephen Parker Gardner
Maine

Berdj Joseph Rassam
California

SUMMARY OF CHARGES AND MAXIMUM PENALTIES

Count 1: Conspiracy - Title 18, United States Code, Section 371
Maximum penalty: 5 years' imprisonment, \$250,000 fine

Count 2: Securities Fraud - Title 15, United States Code, Sections 78j(b) and 78ff, and
Title 17, Code of Federal Regulations, Section 240.10b-5.
Maximum penalty: 10 years' imprisonment, \$1,000,000 fine

Count 46: Obstruction of Proceedings Before Departments, Agencies, and Committees - Title 18, United
States Code, Section 1505. Maximum penalty: 5 years' imprisonment, \$250,000 fine

INVESTIGATING AGENCIES

Federal Bureau of Investigation
United States Securities and Exchange Commission